

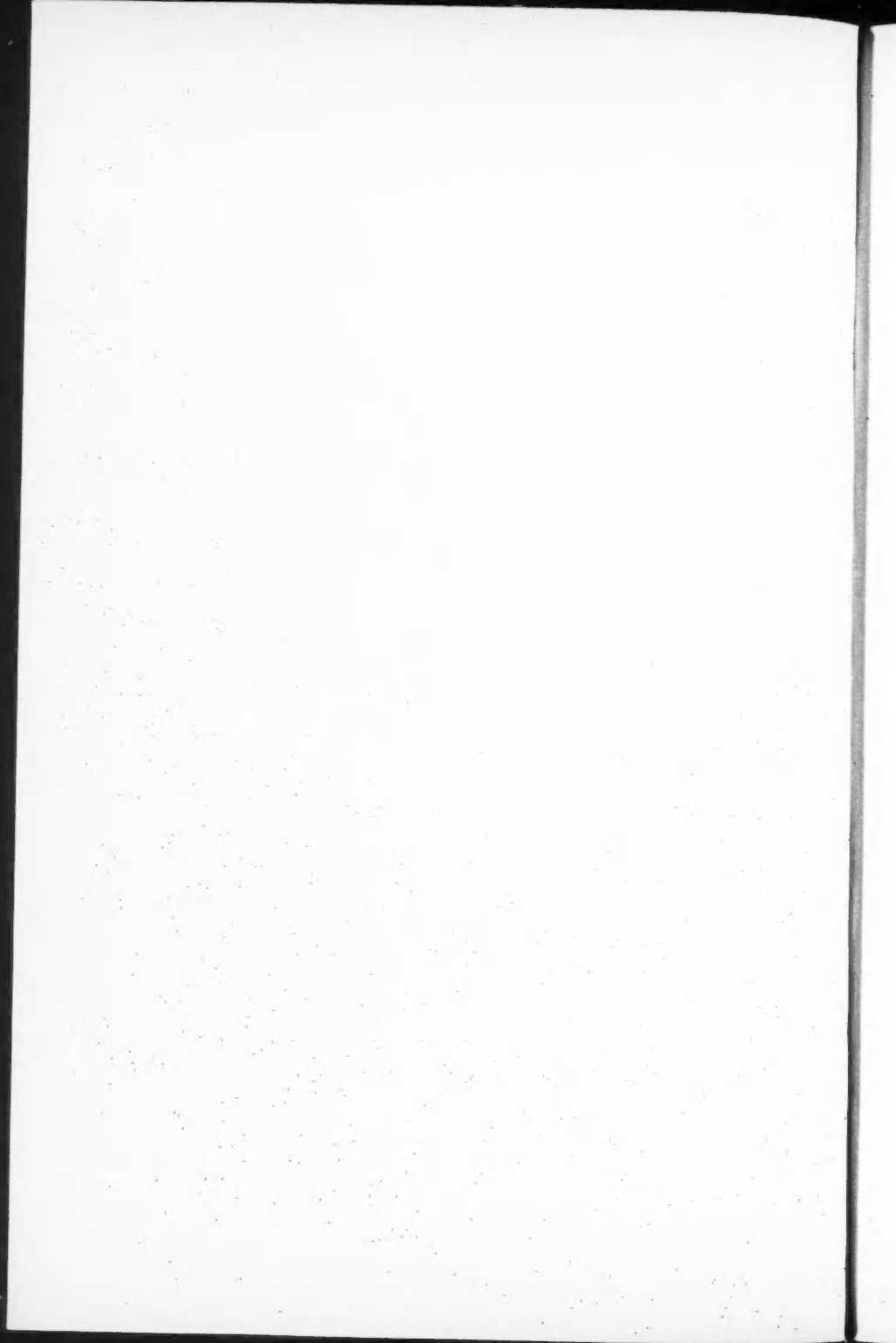
EMERGENCY JOBLESS AID

by

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THE CURRENT business recession may put the federal-state system of unemployment insurance to the most severe test since it was initiated under the Social Security Act of 1935. Unemployment today has not reached the high levels prevailing before World War II, nor has the number of insured workers who have exhausted their unemployment benefits mounted to prewar totals. However, a larger proportion of the labor force is now idle than in the postwar recessions of 1949 and 1954, and the number of workers who can no longer draw benefits is approaching the totals in those years. Today, moreover, many more workers are covered by the unemployment insurance system than was the case before the war. Affecting more people, more is expected of jobless compensation as a means of tiding the unemployed, and the country, over bad times.

How hard the system will be pressed naturally depends on how long the recession lasts and how deep it goes. Unemployment rose from mid-February to mid-March by only 25,000 to a total of 5,198,000. But the number of unemployed usually declines slightly in March. Hence the seasonally adjusted rate of unemployment rose from 6.7 per cent of the labor force in February to 7 per cent in March. The fact that the number of persons out of work for 15 weeks or longer rose by 300,000 to a postwar record of 1,446,000 was particularly disturbing.

Figures on unemployment and employment cover so wide a field that they usually can be interpreted in various ways. Whatever the true significance of the latest statistics, they are not sufficiently encouraging to quiet demands for legislation to increase the amount of benefits paid to persons out of work who are eligible for unemployment compensation and to extend the period in which benefits will be paid.

Demands for liberalization of unemployment compensation grew persistent after the unemployment figures for mid-February had been released on March 11. Unemploy-

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ment totals usually remain steady between the middle of January and the middle of February. This year the number without work rose by 700,000 to a postwar high of 5,173,000 in the week ended Feb. 15.

President Eisenhower had said on Feb. 12, a month before the mid-February statistics were announced, that he believed "we have had most of our bad news on the unemployment front." Eleven Democratic governors nevertheless jointly requested him by wire the next day to start a "practical program" to combat the recession. They specifically proposed federal action to liberalize unemployment benefits. The President disclosed on March 8 that he was considering a plan to bolster the unemployment compensation program; but he said he would withhold a final decision until he had had an opportunity to discuss the matter with a delegation from the Governors Conference which was to call at the White House on March 19.

A presidential message to Congress on March 25, six days after the meeting with the governors, asked legislation "to provide for the temporary continuation of unemployment compensation benefits to otherwise eligible individuals who have exhausted their benefits under state and federal laws." The message proposed that the costs, later estimated at a possible \$600 million, be financed by advances from the federal treasury to be repaid from the proceeds of a temporary increase in the unemployment insurance tax on employers. The President said:

These recommendations reflect my strong conviction that we must act promptly, emphatically and broadly to temper the hardship being experienced by workers whose unemployment has been prolonged. They also reflect my conviction that the need for additional assistance to these workers will be of relatively brief duration.

Bills had been introduced in Congress meanwhile calling for not only temporary, emergency changes in the unemployment compensation system but also for permanent liberalization of benefits. Reps. John W. McCormack (D-Mass.) and Wilbur D. Mills (D-Ark.), sponsors of bills in the former group, declared in a joint statement in mid-March that emergency action was "called for immediately in order to relieve serious hardship of unemployed workers and to help stem the tide of the present downward trend of our economy." Sen. John F. Kennedy (D-Mass.), sponsor of a bill for permanent changes, said on April 11 that the

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new unemployment figures, showing special distress among industrial workers, made it "apparent that our present unemployment compensation system is wholly inadequate to the demands of a recession no greater than the current one." Kennedy added that "No temporary stopgap solution is enough." He insisted that "Only a modernized system of minimum standards . . . can fully meet this problem."

EXPIRATION OF BENEFITS UNDER EXISTING LAWS

Concern over the inadequacy of benefits paid as unemployment compensation has been intensified by growth in the number of persons who have been out of work for so many weeks that they can no longer collect benefits. The number of weeks such benefits are paid varies from state to state. More than one-half of the states now pay unemployment compensation for a maximum period of 26 weeks, but not all jobless workers are entitled to receive benefits for that length of time in most of those states and the maximum periods are of shorter duration in most other states.¹ Once exhausted, benefit rights cannot be reinstated until a person has again worked for the time, and earned the amounts, required by state laws to qualify in the first place.

Census Bureau charts show that unemployment began to rise early in 1957, took a sharp turn upward last summer, and then climbed almost vertically from December to mid-February. More than 3¼ million persons were collecting unemployment benefits at the end of March, but the lengthening period of unemployment and the diminishing number of available jobs had swelled the ranks of jobless persons who had exhausted unemployment benefits. The Labor Department estimated that 481,000 insured workers had joined that group since the first of this year. Secretary of Labor James P. Mitchell told the House Ways and Means Committee on March 28 that possibly 2.3 million workers will have exhausted rights to unemployment benefits by the end of 1958. The number stayed below two million in the previous postwar recessions, but it approached three million in 1939 and 1940. Secretary Mitchell noted that even when employment picks up after a prolonged setback, the number of jobless exhausting their benefit rights may continue to rise for some time.²

¹ See page 291.

² The number of unemployed exhausting benefit rights more than doubled between February 1957 and February 1958 in Alaska, Connecticut, Florida, Montana, Ohio, Oregon, Vermont, and West Virginia.

Unemployment has been particularly severe in durable goods manufacturing industries, chiefly automobiles, primary metals, and machinery, where coverage under unemployment compensation is nearly complete and wages are relatively high. Insured unemployment has risen since January of this year in all except nine states. The national rate of insured unemployment was 7.9 per cent in the week ended March 22, compared with 3.9 per cent a year earlier. The rate exceeded 10 per cent in ten states. The peak rate of 13.5 per cent was shown in Michigan. A later state survey put the Michigan rate at 15.5 per cent on April 1; the same survey found that in the Detroit metropolitan area on that date one in every six workers—17.4 per cent of the area's labor force—was unemployed.

Expiration of insurance benefits is followed in many cases by applications for public assistance. New York City Welfare Commissioner Henry L. McCarthy reported last month that applications for relief were being received there at three times the rate recorded in March a year ago. Aid was being given not only to families whose breadwinners were no longer receiving unemployment insurance benefits, but also to families whose receipts from that source were insufficient to meet minimum living costs. Even so, the commissioner pointed out, New York's relief load had increased by only 14 per cent in contrast to increases of 50 per cent in Chicago and 80 per cent in Detroit.

TEMPORARY VS. PERMANENT CHANGES IN SYSTEM

It seems clear that, at least in the hardest hit areas, the present jobless compensation system is inadequate to meet needs of the unemployed. What the system really offers is insurance against unemployment of relatively short duration. In effect, if a recession is so serious as to verge on depression, the benefits have to be made available over a longer period or supplemented in some other way.

The question immediately facing Congress is whether to take emergency action to require extension of the benefit period by the states and arrange the necessary financing, or to make changes in the basic federal law that will obligate the states to raise existing benefit standards on a permanent basis. In other words, it is a choice between devising short-term measures to help insured unemployed through the present emergency or undertaking a major overhaul to enable the system to cope with more extensive

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and more prolonged unemployment than it is now in position to do.

Serious doubt already has been expressed about the wisdom of utilizing a system supposedly based on insurance principles as a vehicle for distribution of what is essentially emergency relief. Question has been raised also as to whether the unemployment insurance system actually lacks financial capacity to meet present needs of the jobless, or whether the major difficulty does not stem from arbitrary limitations placed on operation of the system by state laws.

Current calls for emergency action have at least focused new interest on long-standing proposals for liberalization of unemployment compensation. It has been widely acknowledged that the benefit schedules, fixed independently by each state, have lagged far behind increases in wages and in prices. President Eisenhower has urged in his Economic Report every year since he entered the White House that the states (1) increase weekly benefits; (2) lengthen the period in which benefits will be paid; and (3) extend the coverage of the system to take in additional workers. President Truman had made similar recommendations repeatedly.

Even before the present recession, persons who lost their jobs and were forced to try to live on unemployment benefits suffered hardships. But the inadequacy of benefit scales was obscured by the fact that only limited numbers of persons were affected and by the further fact that most of them found jobs before the benefits expired. Now, with unemployment widespread and prolonged, the shortcomings of the system are becoming more plainly apparent.

PENDING ADMINISTRATION AND DEMOCRATIC BILLS

Although President Eisenhower is on record as favoring permanent liberalization of the unemployment insurance system, he looks to the states to effect such reforms. His recent request to Congress was for federal action of a temporary nature. The administration proposal, incorporated in a bill introduced by Rep. Daniel A. Reed (R-N.Y.) on March 26, would make benefits available to unemployed insured workers for a period half again as long as that for which they are now eligible. Thus in states which pay benefits for 26 weeks—the maximum in the majority of states—those eligible for that period could draw for an addi-

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tional 13 weeks or a total of 39 weeks. But in states where benefits now are available to some workers for no more than six weeks, the total for them would go only to nine weeks. The bill would leave the amounts of weekly payments unchanged.³

Identical bills put into the House hopper in the middle of March by Chairman Mills of the Ways and Means Committee and House Majority Leader McCormack would make benefits available for an additional 16 weeks, however long the period in which they are now payable. In addition, the bills would make the emergency benefits larger than most present benefits by prescribing that the payments equal 50 per cent of an individual's average weekly wage, so long as that amount did not exceed two-thirds of the average weekly wage in the state paying the benefit. This arrangement would be discriminatory to the extent that many receiving the extended benefits would get more than persons who had not exhausted their regular benefits. It has been explained, however, that the main purpose of the measure is to combat the recession by increasing purchasing power regardless of temporary inequities.

The Republican and Democratic bills are alike in providing that the emergency benefits shall be available, on passage of the legislation, to insured unemployed who have exhausted their regular benefits since Jan. 1, but there would be no retroactive payments. The emergency benefits would remain available until April 1 under the Republican bill and until July 1, 1959, under the Democratic bill.

The administration and Mills-McCormack bills differ sharply in the provisions for financing additional payments. The Republican bill would make necessary funds available from the U.S. Treasury but would require the states receiving them to enter into special agreements for repayment. If funds for that purpose were not otherwise obtainable, unemployment insurance taxes on employers would have to be increased for a limited period to begin Jan. 1, 1964. The Democratic plan calls for grants of federal funds to the states with no repayment requirement.

The principal bills for permanent changes in the unemployment insurance system were introduced on Feb. 6 by

³ The administration bill would affect not only workers covered by the federal-state unemployment insurance system, but also railroad workers, federal civilian workers, and Korean veterans covered by separate federal plans.

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Sen. Kennedy and Rep. Eugene J. McCarthy (D-Minn.).⁴ These bills would establish a uniform period of 39 weeks for maximum duration of benefits in all states and make 50 per cent of average wages, with some over-all limitations, the standard benefit payment in all states. In addition, approximately 1.8 million workers not now covered by the unemployment insurance system would be brought under its protection. Neither the administration bill nor the Mills-McCormack bill provides any aid for the two million jobless members of the labor force not engaged in covered employment.

No hearings have been held on the bills for permanent changes in the unemployment insurance system. The House Ways and Means Committee held three full days of hearings, between March 28 and April 1, on the bills for temporary action, and the committee is now working on its report.

Adequacy of Jobless Benefit System

THE UNEMPLOYMENT compensation system was created by the Social Security Act of 1935 to serve two functions. One was humanitarian: to provide the necessities of life to families stricken by loss of the breadwinner's wages. The other was economic: to sustain commercial activity during the inevitable downturns of a dynamic economy and so help to keep a limited or local recession from precipitating a general deflationary spiral.

The act introduced a unique form of state-federal partnership. It gave the states an incentive to establish their own separate systems of unemployment compensation; set up minimum standards for the state programs; and provided an important administrative and supervisory role for the federal government.

Under the law as it now stands, a federal tax is imposed on all employers who hire four or more workers for at least 20 weeks during a year.⁵ The tax is levied at a rate of 3 per cent on the first \$3,000 paid to each employee.

⁴ The Kennedy bill had 17 co-sponsors: Sen. Frederick G. Payne (R-Maine) and 16 Democrats.

⁵ The tax was imposed originally only on employers of eight or more workers.

However, amounts which employers pay into a state unemployment compensation fund meeting federal standards may be credited as an offset against the federal tax up to 90 per cent of the 3 per cent levy (or 2.7 per cent of payroll). Furthermore, if the state tax for the unemployment compensation fund is imposed at rates which vary below 2.7 per cent in inverse ratio to the rate of labor turnover of individual employers, the federal government recognizes the state-forgiven portion of the tax for purposes of offsetting the federal tax.

The effect of these provisions was to induce all states to institute an unemployment compensation program, financed by state taxes on employers which vary among the states and, in most cases, among employers within a state. The 0.3 per cent of payroll (10 per cent of the 3 per cent) paid by covered employers to the federal government defrays the federal administrative costs. To assure fiscal soundness, the federal law requires each state to deposit the receipts from its employer taxes in the Unemployment Trust Fund in the U.S. Treasury for investment in government bonds. Each state's account is kept separately; the result is a pooling of unemployment risks among all employers within a single state, but not among all employers in the nation.

EFFECTIVENESS OF PLAN AS ECONOMIC STABILIZER

The purpose of the variable tax structure is to encourage employers to do all they can to stabilize work schedules and avoid seasonal ups and downs of employment. The main influence of the system as an economic stabilizer is exerted through payment of unemployment benefits. In good times the benefits have served chiefly to tide workers and local markets over short periods of shrunken payrolls. In bad times the most they can accomplish is to sustain trade—keep families fed and stores open—until other anti-depression measures take effect. For the system, while slowing down business declines, is hardly capable of supplying the impetus needed for an over-all revival of economic activity.

Over the two decades since unemployment insurance was instituted, the system has functioned for the most part in an expanding economy. It has weathered several recessions, but economic activity has not slumped in any of those periods to levels as low as those prevailing before the war, when unemployment insurance coverage and benefits were limited. Hence the ability of the system to withstand

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or to forestall the impact of a severe and prolonged economic downturn never has been put to actual test.

When the initiating legislation was enacted in 1935, one-fifth of the country's labor force was unemployed. No benefits were paid in the early years of the program while necessary reserves were being accumulated. In 1940, when benefits first became payable to insured workers in all states, defense spending was beginning to expand employment opportunities. At that time the unemployed still numbered eight million or nearly 15 per cent of the labor force. Unemployment now is higher than at any time since 1941, when one in ten workers was jobless. The present ratio of 7 per cent compares with 5.9 per cent in 1949 and 5.6 per cent in 1954.

Nearly three million covered workers exhausted their benefit rights in 1939 and 1940. In no year since then have so many persons lost the right to receive unemployment compensation before finding new jobs. During the boom war years the number in that position fell to a handful. But the total rose close to two million in 1946, in 1949, and again in 1954.

Each of the previous postwar recessions gave way to recovery in fairly short order. The number of insured workers now no longer eligible to receive benefits still falls short of the earlier postwar peaks, but it is rising steadily. If the Labor Secretary's estimate of a total of 2.3 million for 1958 is borne out, a new postwar high will be marked up. Approximately 1.2 million workers exhausted benefit rights during 1957. To the extent that benefit payments cease, the service of unemployment insurance as an economic stabilizer also comes to a halt.

DIFFERENCES IN THE LENGTH OF PAYMENT PERIODS

The rate of benefit exhaustions would have been a great deal higher but for the fact that the states in recent years have amended their unemployment compensation laws to lengthen periods of payment. In most states duration of benefits depends on number of weeks worked or amounts earned during a base period. In the beginning the maximum payment period was commonly 16 weeks; in 1937 it had been fixed at as long as 20 weeks in only five states. Today the maximum is less than 20 weeks in only two states: Florida (16 weeks) and Virginia (18 weeks).

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Before President Eisenhower advanced his emergency extension proposal, he had repeatedly stressed the need for state adoption of a payment period of at least 26 weeks for all persons entitled to receive unemployment compensation. Twenty-seven states, Alaska, and the District of Columbia have set the maximum at 26 weeks, Wisconsin at 26½ weeks and Pennsylvania at 30 weeks, but only eight states (California, Kentucky, Maine, Maryland, New Hampshire, New York, North Carolina, Vermont) make payments for 26 weeks to all insured unemployed. Six states (Georgia, Mississippi, Montana, North Dakota, Tennessee, West Virginia) and Hawaii have uniform payment periods of shorter duration, mostly 20-22 weeks.

The minimum duration of benefits in most of the states which have payment periods of varying length ranges between 10 and 15 weeks. In a few states—Florida, Indiana, Oklahoma—the minimum is as short as five or six weeks. Rules for qualifying for payments for a certain number of weeks, or for any payments at all, differ among the states. Administrative decisions on qualifications are often challenged and come up for special determination. The rate of exhaustion of benefits depends not only on how long unemployment continues but also on state rules on duration, eligibility for various levels of benefits, and disqualification factors. In 1946 the average potential duration of benefits for all claimants was 19.8 weeks; in 1954 it was 22.4 weeks. The 1.2 million workers who actually exhausted benefits in 1957 had received payments for an average of 20.5 weeks.

Pending proposals to lengthen the duration of benefits are intended to meet the problems of a recession in which the normal ebb-and-flow of job opportunities is sufficiently disturbed to make it more than ordinarily difficult for laid-off workers to scare up new jobs. Recommendations for increasing the amount of benefits result from widespread recognition of the fact that price rises have made existing payment schedules obsolete.

DECLINE IN RATIO OF BENEFIT PAYMENTS TO WAGES

The question of what constitutes an adequate benefit for an unemployed worker has never been settled to general satisfaction. An authority on social insurance has observed:

The problem of the relationship between social security income and privately secured income has plagued social security planners

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from the first, and the fear that any, or at any rate too liberal, a publicly assured income would, by reducing the economic penalty for not working, discourage initiative and thereby cause a drop in national output has led to a variety of provisions in the laws.⁶

When the unemployment insurance program was first drawn up,⁷ one-half of prevailing wages in covered employment was considered a suitable amount for jobless benefits. In December 1939, when the system was just getting into full-fledged operation, the maximum weekly benefit in all states amounted in fact to 50 per cent or more of average wages; in 15 states the maximum benefit was equivalent to more than 70 per cent of average wages. But the average weekly wage in covered employment at that time was only \$26. By 1945, when it had risen to about \$45, the maximum benefit amounted to 50 per cent or more of the average wage in only 12 states.

Today only six states (Idaho, Mississippi, New York, North Carolina, Utah, Wyoming) and Hawaii pay a maximum benefit equaling 50 per cent or more of the average weekly wage in covered employment in those states. Maximum payments range downward from \$45 a week in Alaska and New York to \$26 in Arkansas, North Dakota, and South Carolina; the maximum in most states lies between \$30 and \$40 a week, and the average payment usually runs well below the maximum. Minimum payments, going to persons who have not worked as long or as steadily as others, run as low as \$5-\$6 a week in some jurisdictions (Alabama, Arizona, Hawaii, Iowa, Kansas); in Mississippi a qualified claimant may receive as little as \$3 a week.

Support has grown in recent years for a jobless benefit amounting to more than 50 per cent of average wages. Although the Kennedy-McCarthy bill provides for a 50 per cent minimum in all states, Sen. Kennedy himself has expressed the view that benefits at two-thirds of average wages would be more desirable. Supplementary unemployment benefit plans, negotiated by automobile, steel, glass and other unions for the first time in 1955, were developed on the premise that 65 per cent of wages was a suitable level of compensation for out-of-work periods. Under the auto contracts, supplementary payments are

⁶ Eveline M. Burns, *Social Security and Public Policy* (1956), p. 56.

⁷ By the Committee on Economic Security, appointed by President Roosevelt in 1934. The committee's recommendations, made in January 1935, were embodied in the Social Security Act approved Aug. 14, 1935.

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added to a jobless worker's public benefits to make a total benefit of 65 per cent of take-home pay for the first four weeks and of 60 per cent for the next 22 weeks.⁸

The supplementary benefits received by certain union workers during the present recession have been credited with performing an important service by helping to fill the gap left by the relatively low percentage of wages paid under the public system of unemployment insurance in many of the high-wage industrial centers. The United Automobile Workers estimated that by March 1 one million S.U.B. checks of \$12 to \$15 each had been sent to its members in Detroit alone. State rules have prevented dual payments in Indiana, North Carolina, and Virginia. An Ohio rule calling for deduction of the supplementary benefit from the public payment was recently overturned by a lower court judge, but the state has appealed the decision.

RECENT CHANGES IN THE STATE COMPENSATION LAWS

State legislatures devote considerable attention to upgrading of unemployment compensation standards. Nearly all of the legislatures that have met in the past year have amended existing laws. Twenty-two states increased weekly benefits by amounts ranging from \$2 to \$11. The most striking changes made recently were in Wyoming and New York. Wyoming established a new flexible maximum benefit of 55 per cent of the average weekly wage in the state; under this formula the basic maximum rose from \$30 to \$41. New York in March 1958 increased its maximum weekly benefit from \$36 to \$45 and made the payments retroactive to last July 1; the state expects to pay out \$9 million in back benefits to 200,000 qualified claimants.

The Connecticut legislature, which last year raised that state's maximum weekly benefit from \$35 to \$40, is considering further changes at a special session now in progress. Other states which have increased their maximum payments during the past year are California (from \$33 to \$40), Oregon (from \$35 to \$40), and Idaho (from \$30 to \$40). Of 11 jurisdictions which pay an added sum for dependents,⁹ six increased the maximum weekly benefit for such persons.

⁸ The United Automobile Workers is seeking extension of the S.U.B. payment period from 26 to 52 weeks, and application of the 65 per cent formula to gross rather than take-home pay.

⁹ Alaska, Connecticut, District of Columbia, Illinois, Maryland, Massachusetts, Michigan, Nevada, North Dakota, Ohio, Wyoming.

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Dependents' allowances, which range from \$2 to \$4 each, bring the highest benefit payable anywhere in the country to \$60 a week—for a fully qualified unemployed worker in Connecticut with five dependents (\$40 a week plus \$4 for each dependent).

Issues in Debate on Aid to Unemployed

SUBSTANTIAL OPPOSITION has developed to current proposals for making alterations, temporary or permanent, in the unemployment insurance system by action of Congress. The debate centers largely around the question of federal vs. state rights in administration of the program. Some advocates of liberalization of benefits strongly oppose federal imposition of improved standards. President Eisenhower, who favors permanent improvement by state action, has sought support for his emergency extension plan on the plea that it would involve a minimum of interference with state authority.

A number of persons nevertheless have insisted that the administration's program would constitute unwarranted federal interference with the states. Several members of the Ways and Means Committee took particular exception because the plan would virtually force the states to borrow from the federal government to prolong unemployment benefits. Reps. Noah M. Mason (R-Ill.) and John W. Byrnes (R-Wis.), when questioning Labor Secretary Mitchell on March 28, expressed belief that the proposal would amount to federal encroachment on state responsibilities.

Sen. A. Willis Robertson (D-Va.) said before the hearings began that use of federal funds for such a purpose would be unconstitutional and an "improper and undesirable" invasion of state rights. This issue has serious economic implications because the pending bills might lead to greater federal control over benefit terms and thus indirectly affect the tax burden imposed on employers. Many states rely on a relatively low rate of unemployment insurance taxation to attract new industry.

Under terms of the administration bill, a state could repay its Treasury loan by appropriating funds for that

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purpose, or the amount could be either marked off against the state's unemployment reserve fund or repaid from the proceeds of a special tax on employers. The bill specifies that in case the third alternative should be taken, the existing federal tax of 0.3 per cent on employers would be increased in 1964 to 0.45 per cent and then by an additional .15 per cent each year thereafter until the federal advance was liquidated.

It was this provision that led Gov. Robert B. Meyner of New Jersey to comment, when questioned late in March, that the plan seemed like "a gracious gesture on the part of the federal government with our money." Several other governors voiced similar sentiments. A number of state officials said they would encounter constitutional or statutory obstacles to accepting federal loans of this kind.

STATE EMPLOYER TAXES AND EXPERIENCE RATING

The purpose of incorporating the tax and offset system in the original program was to make it possible for states to insure workers against unemployment without thereby suffering a competitive disadvantage. Before the federal law was enacted in 1935, it was assumed that few states would burden their employers with a tax which employers in other states might not have to pay. Up to that time only one state, Wisconsin, had had the courage to institute an unemployment compensation program.

In practice, the generous offset allowed against the federal tax has given the states so much leeway to cut back and vary their employer tax rates that the system itself has produced competitive differentials. Most of the states use a complex method of experience rating which taxes each employer according to the cost to the fund of unemployment among his workers. In some states the tax rate for all employers automatically rises or falls according to drains on the reserve fund. The Maryland tax, for example, will go up 0.3 per cent on July 1 because of heavy outpayments in the first quarter of 1958.

The average tax rate today equals the maximum federal offset of 2.7 per cent only in Alaska and Rhode Island, both of which have had high costs (owing in part to widespread unemployment and in part to high benefit rates) for half a dozen years. The average employer tax rate in 1957, according to the Department of Labor, was 1.3

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per cent; for ten states the average was below 1 per cent. Rates last year in some of the states now hard hit by unemployment in durable goods industries were as follows: Ohio, 0.7 per cent; Illinois, Indiana, Missouri, 1 per cent; Pennsylvania, 1.5 per cent; Maine, 1.6 per cent; New York, 1.7 per cent; Michigan, 2 per cent.

A major purpose of the Kennedy bill is to establish a uniform rate of taxation for all employers within a state and thus to do away with the "experience rating" system of variable taxation. The issue of a fixed vs. a variable rate of taxation is highly technical and controversial. Experience rating appeals to many experts as an ideal means of encouraging individual employers to hold down lay-offs. But an authority on social insurance states:

Where, as is the case in a large number of state experience-rating plans, the rate paid by any employer in a given year is affected by his experience with employment in previous years, a period of high employment succeeded by a year or more of recession will mean that most employers will have qualified for tax reductions during economic prosperity and will find, if low employment persists for more than a year, that precisely at the time they are less prosperous their tax rates will be increased. . . . That this situation has not led to greater difficulties in the United States as yet is due to the fortunate accident that since the almost universal reduction in tax rates which resulted from the high employment of the war and postwar years, the country has experienced only short-lived periods of recession.¹⁰

Only one state attempts to protect employers against a rise in unemployment compensation taxes in years when business conditions grow worse. Wisconsin provides that when wage payments drop 5 per cent or more below those in a previous period, the tax rate shall be lowered; this provision may be put into effect for the first time this year.

EXTENT OF STATE UNEMPLOYMENT RESERVE FUNDS

Witnesses before the Ways and Means Committee on April 1 raised the question of whether the states may not be capable of meeting the needs of their unemployed without special assistance from the federal government. Business organizations, including the U.S. Chamber of Commerce and the National Association of Manufacturers, cited the unemployment insurance system's financial strength as an argument against federal emergency aid.

¹⁰ Burns, *op. cit.*, pp. 209-10.

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The system has got through previous recessions without difficulty largely because its founders cautiously provided for accumulation of reserves in the early years. Although the big reserve funds were once referred to as an embarrassment, the healthy balance held in trust has spared the system from any threat of foundering in deficit years. Benefits paid out have exceeded amounts paid into the state funds, taken together, in the years 1949, 1950, 1954, 1955, and 1957. In 1949 a total of \$1.7 billion was paid out and only \$1 billion was taken in from employer tax proceeds; in 1954, \$2 billion was paid out and \$1.1 billion was received; last year the outgo was \$1.7 billion, the intake \$1.5 billion.

These figures are combined totals. Thirty-four of the 51 separate funds paid out more than they took in during 1957.¹¹ In some states the gap between income and outgo was startling. Oregon last year took in only \$1.4 million in employer tax proceeds and paid out \$2.7 million; Pennsylvania received \$1.5 million and disbursed \$2.2 million; Delaware paid out \$2.02 for every \$1 received. But the reserve funds in most cases were well able to absorb the deficit.

State unemployment fund reserves aggregated \$8.2 billion on Feb. 28, 1958. By rule of thumb, a safe level for a reserve fund in unemployment insurance is said to be four times the annual outgo in benefit payments; the danger point is reached when a fund drops to $2\frac{1}{2}$ times the annual outgo. If the separate reserve funds could be considered as a general fund, to be drawn on as needed by any state, the total now on hand would be sufficient to cover all benefit payments for another four years at last year's rate of outgo. However, the system does not work that way. Each state reserve fund has to stand on its own feet.

Six of the separate funds are already down to a danger level in the sense that their reserves have fallen below an amount equal to $2\frac{1}{2}$ times the payments of the previous year. Alaska has enough left in its fund to pay benefits for only three or four months at last year's rate; Delaware for 2.4 years; Michigan for 1.6 years; Oregon for 11 months; Pennsylvania for 1.3 years; and Rhode Island for 1.4 years.

¹¹ Unemployment tax receipts last year exceeded benefits paid out in Alabama, Arizona, California, Colorado, Florida, Hawaii, Illinois, Kansas, Louisiana, Missouri, New Hampshire, New Mexico, New York, South Dakota, Texas, Utah, West Virginia.

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Under a 1954 act of Congress a part of federal receipts from the 0.3 per cent unemployment insurance tax has been put into a special trust fund earmarked for loans to states whose reserve funds drop below the cost of meeting benefits in the preceding year. Only Alaska and Oregon have availed themselves of this assistance to date. The administration's proposal for federal financing of additional unemployment benefits would in effect give similar aid to the states. They probably will need it, even if state employer tax rates should be increased to the full 2.7 per cent authorized under present law, if the benefits are liberalized.

USE OF INSURANCE SYSTEM FOR RELIEF PURPOSES

Objection has been raised to temporary boosting of unemployment benefits on the ground that this would amount to foisting an emergency relief task on an established insurance system and would thereby impair its fiscal soundness. Hardship caused individual families by prolonged unemployment is called a problem for local authorities. Instead of giving workers additional benefits under the unemployment insurance system, it is contended, each case should be considered individually and relief funds made available as needed. It is asserted that this, in fact, is what is being done now to assist families of unemployed workers who are not covered by unemployment insurance and workers with large families whose unemployment benefits are not sufficient to meet subsistence needs.

A U.S. Chamber of Commerce official pleaded with the Ways and Means Committee not to "wreck" the unemployment insurance system by converting it into a dole. Gov. Meyner of New Jersey declared on April 3 that unemployment benefits should be extended only as a "last resort" anti-recession measure. "The people of this state," he said, "do not want a dole; they want jobs." Many others have expressed agreement with the view that jobless benefits should be limited to insurance payments for short-term unemployment while other anti-recession measures are relied on to prevent undue prolongation of unemployment.



